



# WEEKLY ECONOMIC DIGEST

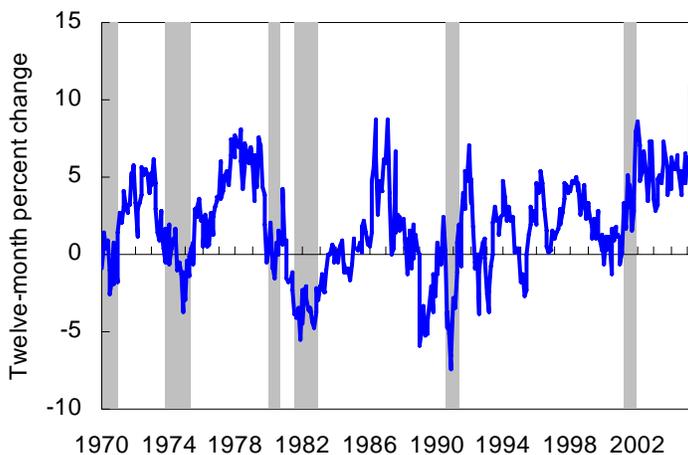


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 28, 2005

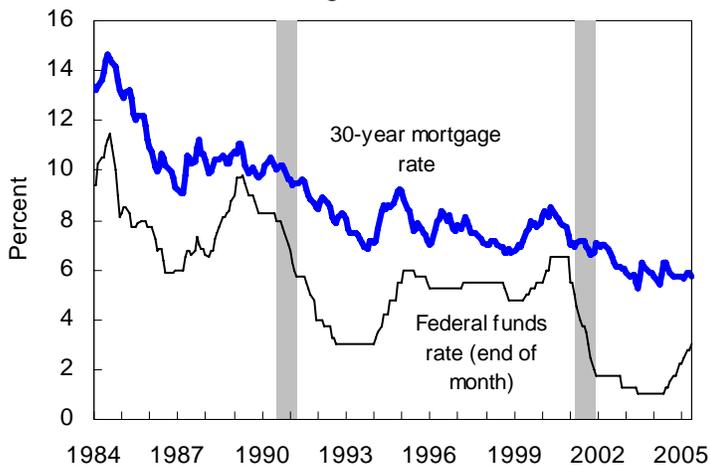
## Fed Tightening Has Yet to Cool the Housing Market

Real Median Sales Price of Existing Single-Family Homes



Source: National Association of Realtors; Bureau of Labor Statistics, U.S. Department of Labor; and National Bureau of Economic Research.

Mortgage Loan Rate and Federal Funds Target Rate



Source: Board of Governors, Federal Reserve System and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Housing activity remained strong in May.** Sales of new single-family homes rose by 2.1 percent to an annual rate of 1.298 million units last month. Sales of existing homes dipped 0.7 percent to 7.130 million units (annual rate) but remained near their record April level. Builders demonstrated optimism about the near-term outlook for housing demand, starting 1.7 million new single-family homes (annual rate) in May, an increase of 77,000 units over the previous month and 3.3 percent above last year's level.

- **Home prices continued to rise last month.** The median sales price for existing single-family homes rose to \$204,600 in May—that means that half of the existing homes that changed hands last month sold for more than that amount. Over the past year, growth of the median price of existing homes outpaced inflation in consumer prices by over 9 percentage points (see top chart). The median price of new homes sold in May was \$217,000, up 2.5 percent from a year earlier.

- **Mortgage rates remain low.** The interest rate on conventional 30-year fixed rate mortgages has remained near 5.6 percent in recent weeks and has been an important factor in sustaining robust housing demand. To some extent, the recent strength in housing activity may also reflect an expectation among homebuyers that loan rates are unusually low and are about to rise.

- **The Fed is likely to continue tightening monetary policy.** The Federal Reserve is widely expected to raise its target loan rate for overnight federal funds by ¼ percentage point later this week. Since the end of June 2004, the Federal Reserve has raised its target funds rate by 2 percentage points. However, the conventional mortgage rate fell by 0.6 percentage point over that period (see bottom chart). Normally, mortgage and other long-term interest rates rise when the Fed raises short-term rates, making the recent experience puzzling.

The Economy at a Glance	May	Apr	Mar	Feb	2005 Qtr 1	2004 Qtr 4	2004 Qtr 3	2004 Qtr 2	2004	2003
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	3.5	3.8	4.0	3.3	4.4	3.0
Industrial Production (% growth)	4.9	-3.5	2.4	6.2	3.5	4.5	2.7	4.3	4.2	0
Capacity Utilization (level, %)	79.4	79.1	79.4	79.4	79.3	78.8	78.2	77.9	78.1	75.5
Civilian Unemployment Rate (level, %)	5.1	5.2	5.2	5.4	5.3	5.4	5.5	5.6	5.5	6.0
Housing Starts (thousands)	2009	2005	1833	2228	2083	1973	1974	1923	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	1.0	-0.2	1.9	3.3 <sup>#</sup>	6.0 <sup>#</sup>	2.9	2.8	3.4 <sup>#</sup>	2.3
Retail Sales (% growth)	-5.8	20.2	3.9	8.1	6.0	10.2	6.7	6.3	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	0.4	0.5	0.9	0.9	1.1 <sup>#</sup>	0.7	1.3	1.0 <sup>#</sup>	1.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	-1.2	6.2	7.4	4.9	2.4	3.6	1.6	4.4	2.7	2.3
Core CPI-U Inflation (% growth)	1.2	0	4.9	3.7	2.6	2.3	1.7	2.6	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	4.1	3.6	3.9	4.0
Output per Hour (% growth)	—	—	—	—	2.9	2.3	0.9	4.1	4.0	4.3
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	2.84	2.78	2.74	2.54	2.54	2.01	1.49	1.08	1.37	1.01
T-note Rate, 10-years (level, %)	4.14	4.34	4.50	4.17	4.30	4.17	4.30	4.60	4.27	4.01
Federal Funds Rate (level, %)	3.00	2.79	2.63	2.50	2.47	1.95	1.43	1.01	1.35	1.13
Dow Jones Industrial Avg (index level)	10377	10283	10682	10724	10648	10362	10130	10289	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

# Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

### Upcoming Economic Releases:

- **Gross Domestic Product (Final) and Corporate Profits (Revised): First Quarter 2005** [Release: Wednesday, June 29]
- **Personal Income and Outlays: May 2005** [Release: Thursday, June 30]
- **Federal Open Market Committee Monetary Policy Announcement** [ Thursday, June 30]
- **Construction: May 2005** [Release: Friday, July 1]